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September 8, 2010

Employer Code: 5185-5885
Job Number: P09-022

Department of Corrections – Richard A. McGee Correctional Training Center
Elizabeth Sabala, Personnel Supervisor
9850 Twin Cities Road
Galt, CA 95632

Dear Ms. Sabala:

Enclosed is our final report on the results of the state agency review completed for the Department of Corrections – Richard A. McGee Correctional Training Center. After several emails and telephone conversations requesting the Center's response to the Draft report, the Center chose not to respond. However, during the exit conference, the Center agreed with all the findings noted in the report. As part of our resolution process, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your agency and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

Original Signed by Margaret Junker
Margaret Junker, CPA, CIA, CIDA
Chief, Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS
Peter Mixon, General Counsel, CalPERS
Lori McGartland, Chief, ERSD, CalPERS
Mary Lynn Fisher, Chief, BNSD, CalPERS
Holly Fong, Chief, EMHS, CalPERS

Department of Corrections And Rehabilitation

Richard A. McGee

Correctional Training Center



Public Agency Review



Office of Audit Services

Employer Code: 5185-5885
Job Number: P09-024

September 2010

**DEPARTMENT OF CORRECTIONS AND REHABILITATION:
RICHARD A. MCGEE CORRECTIONAL TRAINING CENTER**

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RESULTS IN BRIEF

We reviewed the California Department of Corrections and Rehabilitation Richard A. McGee Correctional Training Center's (Center) enrolled individuals, health and retirement contributions, member earnings and required health, retirement and Automated Communications Exchange System (ACES) documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Did not enroll five temporary/part-time employees in CalPERS membership.
- Three retired annuitants who worked over 960 hours in a fiscal year were unlawfully employed.
- An incorrect retirement account code was assigned for one individual.
- Proper health benefit documentation was not on file for four members.
- Verification of eligibility was not available for three dependents enrolled in health benefits.
- Required ACES Employer User Security Agreements and Delete ACES Users Access forms were not on file for ten sampled employees.

BACKGROUND

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts. State members include state miscellaneous, highway patrol, state safety, state industrial and state peace officer/firefighter (POFF) members. California

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Government Code (GC), § 20370 through § 20445, provides detailed definitions for these classifications. These classifications denote different retirement benefit formulas, which include: 2% at age 55 for state miscellaneous or industrial members (GC § 21354.1); 3% at age 50 for state patrol members (GC § 21362.2); 2.5% at age 55 for state safety members (GC § 21369.1); 3% at age 55 for POFF and local safety members (GC § 21363.1); and, 3% at age 50 for POFF members (GC § 21363.4 and § 21363.8).

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment, unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

Unlike contracting agency retirement benefit program operations, state agencies do not report member enrollment and monthly payroll data to CalPERS. Instead, each state agency inputs membership and payroll information with special designated codes into the Personnel Information Management System (PIMS) through Personnel Action Request forms. PIMS contains official personnel, payroll, and retirement information for state employees. The State Controller's Office (SCO) has the responsibility for maintenance and security of PIMS.

In accordance with the SCO's published Personnel Action Manual and Payroll Procedures Manual, state agencies input necessary personnel and payroll changes into PIMS. The system automatically passes data fields that are necessary for retirement benefit calculations to CalPERS via CalPERS' Transaction Log. The data from PIMS updates the appropriate CalPERS application systems, such as, the Contribution Reporting System, Retirement Information Benefit System and CalPERS Online Member and Employer Transaction System. One critical data element passed on from state agencies to CalPERS, via the SCO, is the employee's Retirement Account Code (RAC). The RAC is a one or two digit alpha or numeric code used by PIMS to designate an employee's retirement status. During system updates from SCO to CalPERS, the RAC for each employee is converted to a coverage group code, which is significant for determining retirement contribution levels while the employee is active and the retirement formula when the employee is applying for retirement.

In general, when changes are mandated by law or contract, without the need for state agencies to prepare payroll change documents, payroll changes may be made automatically by the SCO. However, each agency has full responsibility for

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preparing accurate Personnel Action Request forms, employee attendance reports, and selecting appropriate compensation codes. California State Civil Service Pay Scales are published by the Department of Personnel Administration. SCO's Payroll Procedures Manual, § G 105, outlines miscellaneous special compensation payment processing methods and whether they are subject to CalPERS for the purpose of retirement calculation.

The SCO also has the responsibility for processing the health care contribution amounts for state employees and state agencies. Based on the information contained in PIMS, the SCO identifies and remits the state's contribution and the amounts authorized by employees and annuitants to be deducted from their salaries or retirement allowances for payment of contributions.

The California Department of Corrections and Rehabilitation (Department) operates California's prison system. The Department's mission is to enhance public safety through safe and secure incarceration of offenders, effective parole supervision, and rehabilitative strategies to successfully reintegrate offenders into our communities.

The Department's Richard A. McGee Correctional Training Center (Center), located in Galt, California, was established in the early 1970s and through the basic correctional officer academy program conducted at that site, provides all correctional officer training in California. Cadets who complete the 16-week training are certified by the academy as qualified peace officers and correctional officers. Upon graduation from the academy, correctional officers are assigned to one of the State of California's adult institutions to assist in protecting and securing the safety of staff, inmates, and the public. In addition to the basic correctional officer training, the center provides advanced peace officer and correctional officer training, parole agent training, management training, and a leadership institute.

SCOPE

As part of the Board approved plan for fiscal year 2009/2010, we reviewed the Center's payroll reporting and enrollment processes as these processes relate to the Center's health and retirement mandates with CalPERS. The objective of this review was limited to the determination that the Center complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted on September 29 and 30, 2009, and October 6 and 20, 2009.

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The review period was limited to the examination of the records and processes from July 1, 2006 through June 30, 2009. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the mandated requirements the Center had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the Center had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the Center's personnel and payroll procedures.
- ✓ Reviewed the payroll transactions for sampled employees and compared the Center's payroll information with the data reported to CalPERS to determine whether the Center correctly reported employees' compensation.
- ✓ Reviewed the Center's payroll information reported to CalPERS for the sampled employees to determine whether employees' payrates were reported pursuant to public salary information.
- ✓ Reviewed the Center's enrollment practices pertaining to temporary/part-time employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the Center's classification of employees to determine whether the Center reported sampled employees in the appropriate coverage groups. The RAC, which is entered by the Center into the SCO system, is converted to the coverage group code when the information is reported to CalPERS.
- ✓ Reviewed the Center's calculation and reporting of unused sick leave balances for retiring employees.
- ✓ Reviewed employees and their dependents to determine whether the Center properly enrolled eligible individuals into CalPERS Health Benefits Program.
- ✓ Determined whether the Center maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

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RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
1. The Center may not accurately report compensation to CalPERS.	We reviewed payroll records and compensation reported to CalPERS for a sample of 16 employees over two service periods. The service periods reviewed were June 2008 (06/08-0) and June 2009 (06/09-0). We determined that compensation was accurately reported to CalPERS.	None.
2. The Center may not report payrates in accordance with publicly available salary schedules.	We reviewed payrates reported to CalPERS and reconciled the payrates to the Department of Personnel Administration's public salary information for 16 sampled employees to determine whether payrates for the sampled employees were properly authorized and reported to CalPERS. We determined the Center paid and reported payrates pursuant to the authorized published salary information.	None.
3. The Center may not enroll all eligible employees into CalPERS membership.	We selected five employees from four of the Center's Basic Correctional Officer Academy classes held during the scope of the review for a total of 20 sampled employees. We reviewed the CalPERS database to	The Center should check with CalPERS to identify temporary/part-time employees with prior CalPERS membership and

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The Center may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>determine whether the 20 sampled employees had prior CalPERS membership and should have been enrolled upon employment by the Center.</p> <p>We determined three employees in fiscal year 2007/2008 and two employees in fiscal year 2008/2009 met eligibility due to prior membership, but the Center did not enroll the members and report earnings to CalPERS.</p> <p>Government Code, § 20305, states, in part, "(a) An employee whose appointment or employment contract does not fix a term of full-time, continuous employment in excess of six months is excluded from this system unless: (1) He or she is a member at the time he or she renders that service and is not otherwise excluded pursuant to this article or by a provision or a contract."</p>	<p>immediately enroll and report earnings for these employees when this membership eligibility criterion is met.</p> <p>The Center should work with CalPERS ERSD to identify the impact of these enrollment issues and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the Center and CalPERS ERSD as an appendix to our draft report.</p>
<p>4. The Center may unlawfully employ retired annuitants.</p>	<p><u>Maximum Hours Threshold</u></p> <p>We reviewed the hours worked by five retired annuitants in fiscal years 2007/2008 and 2008/2009. Our sample testing revealed that three retired annuitants exceeded the 960 hour threshold in fiscal year 2007/2008 and were not reinstated.</p>	<p>The Center should immediately reinstate retired annuitants when the number of hours they work exceeds 960 hours in a fiscal year. The Center should work</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The Center may unlawfully employ retired annuitants. (continued)</p>	<p>Government Code, § 21224, states, in part, "(a) A retired person may serve without reinstatement from retirement or loss or interruption of benefits provided by this system upon appointment by the appointing power of a state agency or public agency employer either during an emergency to prevent stoppage of public business or because the retired employee has skills needed in performing work of limited duration. These appointments shall not exceed a total for all employers of 960 hours in any fiscal year...."</p> <p><u>Bona Fide Separation</u></p> <p>We determined that a bona fide separation from employment, per Government Code, § 21220.5, was not needed. Specifically, four of the five sampled retired annuitants met the minimum retirement age requirement and the remaining retired annuitant retired in 2003 prior to the scope of our review.</p>	<p>with CalPERS BNSD to identify the impact of the unlawful employment and determine what adjustments, if any, are needed.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the Center and CalPERS BNSD as an appendix to our draft report.</p> <p>None.</p>
<p>5. The Center may not appropriately report members under the proper coverage group code.</p>	<p>We examined the appropriateness and accuracy of assigned retirement account codes (RAC). A RAC is defined by SCO's Personnel Action Manual, page 2.62.2a, as, "A one or two digit alpha or numeric code used by the Employment History Database system to designate an</p>	<p>The Center should ensure appropriate RAC assignments so that each member is reported under the proper coverage group code.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>5. The Center may not appropriately report members under the proper coverage group code. (continued)</p>	<p>employee's retirement status."</p> <p>We tested a sample of six employees representing five RAC types used by the Center. We reviewed each sampled employee's RAC and verified whether the coverage group was consistent with the information in the CalPERS database. We determined the Center accurately assigned RACs in accordance with SCO's Personnel Action Manual and CalPERS' State Handbook for each sampled individual, except in one instance:</p> <p>The Center assigned one member in Bargaining Unit R01 a RAC account code 9C, defined by SCO's Personnel Action Manual as appropriate for an industrial 1st tier member newly hired by the State on or after January 1, 2007. The coverage group is 11001 with a three-year final compensation, as indicated by CalPERS' State Handbook. However, because the member began State employment on September 18, 2006, and contributed to the Alternate Retirement Program for the first 24 calendar months of employment, the assigned RAC of 9C is incorrect.</p> <p>The proper RAC is 49, defined by SCO's Personnel Action</p>	<p>The Center should work with CalPERS ERSD to assess the impact of this incorrect reporting and determine what adjustments are needed.</p> <p>A confidential list identifying the individual mentioned in this section of the report has been sent to the Center and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
5. The Center may not appropriately report members under the proper coverage group code. (continued)	Manual as appropriate for an industrial 1 st tier member hired on or after January 1, 2000. The coverage group is 11004 with a one-year final compensation, as indicated by CalPERS' State Handbook.	
6. The Center may not accurately report unused sick leave balances for retiring CalPERS members.	We reviewed the unused sick leave balances for a sample of four retirees to determine whether the Center properly computed and reported the balances. We determined the Center accurately certified retiring members' unused sick leave balances to CalPERS.	None.
7. The Center may not properly enroll eligible employees and their dependents in health benefits.	<p>We reviewed a sample of six employees to assess the health benefits eligibility and enrollment of members and their dependents. Our sample testing revealed the Center properly enrolled eligible employees and their dependents in CalPERS Health Benefits Program, except for the following:</p> <p>The Center did not have the required and/or had an incomplete Declaration of Health Coverage (HB-12A) form for four sampled employees and did not provide verification of dependent eligibility for three dependents enrolled under one member's health benefits.</p>	<p>The Center must ensure that the proper member and dependent enrollment documentation is on file at the Center within 60 days from the date of our final report.</p> <p>Please send an email to: HBB_Audit_Services@calpers.ca.gov once the requested documentation is on file. The CalPERS HBB may be contacted at (916) 795-3836 with</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The Center may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>The HB-12A provides information on enrollment options and consequences for non-enrollment and helps ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA). Effective January 1, 1998, each employee must sign the HB-12A when they are first eligible to enroll or when they make any change to their health coverage. This includes open enrollment changes, changing health plans when moving, adding or deleting a dependent, or when canceling health benefits. The employer must provide the HB-12A at the time the employee requests enrollment or with the Health Plan Enrollment (HBD-12) form. The employer also must provide the employee a copy of the signed form and keep the original in the employee's file.</p> <p>California Code of Regulations, § 599.500, states, in part, “(f) ‘Enroll’ means to file with the employing office a properly completed Health Benefits Plan Enrollment Form electing to be enrolled in a health benefits plan...(h) ‘Register not to enroll’ means to file with the employing office a properly completed Health Benefits Plan Enrollment Form electing not to be enrolled in a health benefits plan...(k) ‘Eligible’ means eligible under the law and this subchapter to be enrolled.”</p>	<p>any questions.</p> <p>A confidential list identifying the individuals mentioned in this section of the report was sent to the Center and CalPERS HBB as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The Center may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>Government Code, § 20085, states, in part, “(a) It is unlawful for a person to do any of the following: (1) Make, or cause to be made, any knowingly false material statement or material representation, to knowingly fail to disclose a material fact, or to otherwise provide false information with the intent to use it, or allow it to be used, to obtain, receive, continue, increase, deny, or reduce any benefit administered by this system. (b) For purposes of this section, ‘statement’ includes, but is not limited to, any oral or written application for benefits, report of family relationship..., or continued eligibility for a benefit or the amount of a benefit administered by this system. (c) A person who violates any provision of this section is punishable by imprisonment in a county jail not to exceed one year, or by a fine of not more than five thousand dollars (\$5,000), or by both that imprisonment and fine. (d) A person violating any provision of this section may be required by the court in a criminal action to make restitution to this system... for the amount of the benefit unlawfully obtained.”</p>	
<p>8. The Center may not maintain appropriate ACES security procedures.</p>	<p>We reviewed the security procedures for the Center’s ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed</p>	<p>The Center should work with CalPERS ERSD to ensure that ACES user security agreements are completed, submitted and</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>8. The Center may not maintain appropriate ACES security procedures. (continued)</p>	<p>and filed for ACES users.</p> <p>We determined the Center currently has no employees that use ACES, however, documentation was requested for ten prior ACES users identified by CalPERS ERSD. Our testing revealed the Center disabled all ten prior ACES users, but did not complete and submit the Delete ACES Users Access (AESD-42) forms to CalPERS. In addition, no ACES Employer User Security Agreement (AESD-43) forms were on file.</p> <p>CalPERS ACES User Guide, pages 107 and 123, requires Account Administrators to, "Immediately disable the ACES access of any employee no longer needing access, leaving employment, or taking an extended leave of absence." Additionally, the Account Administrator is required to immediately fill out, electronically submit, and maintain a copy of the AESD-42 form for all ACES users who no longer have ACES access.</p> <p>CalPERS ACES Security procedures outlined on the CalPERS website at www.calpers.ca.gov require agencies to keep a signed copy of security documents on file for ACES users. An AESD-43 must be completed for each</p>	<p>maintained.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the Center and CalPERS ERSD as an appendix to our draft report.</p>

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RISK	MITIGATION & OBSERVATION	RECOMMENDATION
8. The Center may not maintain appropriate ACES security procedures. (continued)	employee using CalPERS on-line access and be available to CalPERS upon request. Forms must be retained in a secure work site location of the employer, for the life of the Agreement and for two years following the deactivation or termination of the Agreement. CalPERS is to be notified immediately in the event that any of its sensitive or confidential information is subjected to unauthorized disclosure, modification or destruction.	

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CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the Center's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

Original signed by Margaret Junker
Margaret Junker, CPA, CIA, CIDA
Chief, Office of Audit Services

Date: September 2010

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